month earlier, considerably below the peak level of 13.1% recorded in January 1980 and below the 9.0% recorded a year earlier. On balance, consumer price expectations were lower in mid 1981 than at anytime during the prior three years. During the past eighteen months, the proportion of consumers that expected double digit inflation fell to 26 percent in July 1981, from 36 percent in July 1980, and 53 percent in January 1980.

Compared with early 1980, when inflation expectations reached peak levels, by mid 1981 unemployment was identified as the more serious economic problem facing the nation with increasing frequency. From early 1980, when inflation rather than unemployment was viewed as thre more serious problem by a margin of 64 to 26 percent, the margin has shifted to a nearly equal 48 to 42 percent, although inflation still remains the more frequently mentioned problem.

In the June and July 1981 surveys, twice as many consumers expected unemployment rates to increase (36 percent) as to decline (18 percent) during the year ahead. Although this proportion represents a substantial improvement from one year earlier when five times as many respondents expected increases (59 percent) rather than declines (11 percent), nearly the entire improvement is based on the expectation that the unemployment situation will not worsen, whereas very small increases were recorded in the number who actually expected improvement.

In the July 1981 survey, 38 percent of all families expected interest rates to increase, unchanged from one month earlier, but above the 21 percent recorded a year earlier. Similarly, the proportion that expected interest rate declines stood at 29 percent in July 1981, unchanged from one-month earlier, down from 44 percent a year earlier. High and fluctuating interest rates, coupled with heightened consumer awareness of information on interest rate trends, and reinforced by changes in both saving and debt transactions, has resulted in rapid shifts in expectations. Across a wide range of measures of attitudes and expectations, none has shown greater volatility during the past several years than interest rate expectations.

The proportion that expected increases in interest rates fell from 70 percent in September 1979 to 40 percent by December 1979, and then rose again to 71 percent by March 1980. From March to July 1980, the proportion fell dramatically from 71 to 21 percent, and then subsequently rose to 53 percent by the end of 1980. At the start of 1981, the proportion that expected higher interest rates fell to about 30 percent, subsequently rose to the 40 percent level in May 1981 and has remained at that level through the July survey.

Buying Attitudes Remain Unfavorable

Consumer buying attitudes remained near record low levels in the July 1981 survey. Some small improvements were recorded in the July 1981 survey in attitudes toward market conditions for household durables and cars, but not for houses. These improvements can be attributed to somewhat fewer complaints about high interest rates and high prices, the major factors which have depressed buying attitudes during the past year.

Consumer evaluations of market conditions for houses remained at record low levels in the July 1981 survey. On balance, house buying attitudes were even less favorable in the first half of 1981 than in the first half of 1980. Favorable house buying attitudes fell sharply during 1979 and early 1980, with some of the decline being reversed in mid-1980 when interest rates fell. The renewed increases in interest rates at the end of 1980 caused house buying attitudes to fall to all-time record low levels in the first half of 1981. In the July 1981 survey, fully three-in-four consumers rated market conditions for houses as unfavorable, with spontaneous references to high interest rates made by nearly everyone who held unfavorable views (71 percent). Although buyer accomodation to higher mortgage rates than prevailed in the past can be expected, declines in current rates are needed before a sustained recovery can take place. Even when declines in mortgage rates again draw buyers into the market, the spread of variable rate/payment and other types of mortgages will redefine the influence of market interest rates on consumer attitudes. Whether interest rate sensitivity further increases or the new mortgage instruments help diffuse concern, will have an important influence on the subsequent pace of recovery.

Favorable car buying attitudes were reported somewhat more frequently in the July 1981 survey (40 percent), than one-month earlier (33 percent), and one-year earlier (36 percent). Despite the small improvement, attitudes toward market conditions for automobiles have remained at relatively unfavorable levels throughout the past two years. Since mid-1979, attitudes toward buying conditions for automobiles have fluctuated within a narrow band, moving in a sideward zigzag fashion over time. During the past two years, the small declines in early and late 1980 were associated with increasing complaints about high interest rates, and the small increases in favorable car buying attitudes were associated with more frequent references to rebates and price discounts. Moreover, the level at which car buying attitudes have remained stalled is comparable to levels recorded only during prior recessions. In the July 1981 survey, 25 percent of all respondents mentioned that high interest rates make buying

conditions for cars unfavorable, just below the 28 percent recorded one month earlier, but substantially abobe the 11 percent recorded one year earlier. Mentions of rebates and price discounts fell to 17 percent in July 1981, from a recent high of 30 percent in March 1981, and 25 percent in July 1980.

Favorable attitudes toward buying conditions for large household durables were more frequently recorded in July 1981 (53 percent) than one month (44 percent) or one year earlier (44 percent). During the past year, buying attitudes toward durable goods have fluctuated at relatively low levels. The small July improvement was associated with fewer unfavorable mentions of high interest rates on credit purchases, the proportion falling to 17 percent from 23 percent in June, but nonetheless remaining at an historically high level.

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The July 1981 survey contained 694 interviews, conducted between June 24 and July 22, 1981.